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C O N F I D E N T I A L YEREVAN 000272

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TAGS: ECON EAIR PGOV AM
SUBJECT: CONCERN OVER PROPOSED IFC LOAN TO ARMAVIA

REF: 06 YEREVAN 666

Classified By: CDA A.F. Godfrey for reasons 1.4 (b,d).

¶1. (C) Econoff recently met with local International Finance Corporation (IFC) head Nerses Karamanukian to raise post's concern about a proposed USD 11 million loan to Armenian national air carrier Armavia. Over the past year, Armavia has been plagued by financial problems and the company is owned by Mikhail Bagdasarov, an Armenian oligarch of dubious reputation. The extent of Armavia's difficulties became apparent when an Armavia flight crashed into the Black Sea in May 2006. At that time, Executive Director of Armenian International Airports Juan Pablo Gechijyan (protect) told us that the crash could have been anticipated given the growing number of serious safety problems on Armavia flights. He also told us that Bagdasarov was in arrears to the airport in excess of USD 1 million for landing fees and other charges (reftel). Indeed, Armavia's reputation is so poor that some international organization, including UN organizations, do not permit official travel on Armavia flights.

¶2. (C) Econoff raised these concerns with Karamanukian who reassured us that there would be provisions in the IFC loan agreement to ensure that Armavia improves its safety, maintenance and financial management practices. Post, however, remains concerned about the commercial viability and political prudence of this loan. Indeed head of KPMG Armenia Andrew Coxhall (protect) told us that KPMG had been approached to provide the audited financial statements required for the IFC loan agreement, but when it became clear that KPMG was unwilling to guarantee a clean audit, Armavia chose to have the audit done by a less expensive (and presumably more corruptible) local auditor.

¶3. (C) Post understands that the IFC Board will be considering the Armavia loan proposal in the coming days. Given Armavia's poor business practices, the dubious reputation of Armavia's owner and suspect nature of the firm's audited financial statements, post urges that this loan application be given the utmost scrutiny.

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